Air India Disinvestment

Why in news?

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The Union Cabinet in June, gave its in-principle approval for disinvestment of government equity in Air India.

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What is the rationale behind the disinvestment?

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- Air India has been surviving on a Rs. 30,000-crore bailout package put together by the United Progressive Alliance government in 2012 to help its turnaround, and the debt relief provided by public sector banks.
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- Yet the airline has neither adequately improved its service nor become viable.
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- It **continues to post heavy annual losses** and has a massive outstanding debt of Rs 46,500 crore.
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- The government money that keeps Air India from going bankrupt would be much better used to fund social and infrastructure programmes.
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What could be the potential problems?

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- The airline, at present, has a massive debt load, and it is estimated that **even the asset sale may not fully cover its present liabilities.**
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- It is not yet clear whether the airline will be fully privatised or how its eventual sale will be executed.
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- A ministerial panel under Mr. Arun Jaitley is expected to begin working on

the details soon.
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- Even though, the finance minister promised that the ministerial group would be set up quite fast, he **refrained from stating a clear timeline** for implementation.
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- Also, the idea of **selling Air India's assets one at a time,** by unbundling them to secure better valuation, could lead to delays.
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What could be done?

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- The aim of the sale should be to get the best price for the airline.
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- One good way to achieve this would be to **allow both domestic and foreign buyers to bid freely for stakes.**
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- For this, the government will have to **re-tune its FDI policy** to allow foreign investors to buy a stake in Air India.
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- And, to achieve a relatively quick exit, the best option would be to transfer all unrelated assets such as subsidiaries and real estate to a **special purpose vehicle (SPV)** at zero value.
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- The name SPV is given to an entity which is formed for a single, well-defined and narrow purpose.
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- All debt, other than that related to aircraft, should be transferred to this SPV.
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- Thus, the airline, with a relatively clean balance sheet, would be available to be sold.
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- Later, the SPV could sell the assets one thing at a time, without a deadline to realise better value and repay its portion of the debt from the proceeds.
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Source: The Hindu & Business Standard

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